

## 1099 INSTRUCTIONS

You are receiving this notice because you have some type of trade or business or rental property. The Internal Revenue Service (IRS) requires you to report certain payments you make as part of your business (including rental properties) to both the payee and the IRS. Please take a few minutes to read the enclosed information so that you can prepare now for these changes and avoid costly problems regarding these forms later.

If you paid anyone \$600 or more, by check or cash, NOT CREDIT CARD, during 2023, you and/or your business may need to issue Form 1099-NEC or Form 1099-MISC to the individuals or businesses that you paid. This memo will explain your requirements and the penalties for not following the new regulations. A 1099 Worksheet is located at the end of this letter.

### **When Form 1099-NEC or 1099-MISC is required**

You are required to report on Form 1099-NEC or Form 1099-MISC any payments made using cash or checks/ACH payment from your business checking account in the course of your trade or business. **This does not include payments made from your credit card accounts.**

You must file a Form 1099-NEC or Form 1099-MISC, Miscellaneous Income, for each person or entity to whom you have paid during the year that is not a corporation, see last bullet below for exceptions:

- At least \$10 in Royalties
- At least \$600 in
  1. Rents
  2. Services (the dollar amount includes parts and materials)
  3. Prizes and Awards
  4. Other Income Payments
  5. Barter Income
  6. Medical and Health Care Payments
  7. Crop Insurance Proceeds
  8. Cash payments for fish you purchased from anyone engaged in the trade or business of catching fish.
- Any fishing boat proceeds
- Gross proceeds of \$600 or more paid to an attorney or for medical and veterinary services, health care or fishing activities (no exception for Corporation)

Generally, you do not have to issue a Form 1099-NEC or Form 1099-MISC for non-employee compensation paid to a corporation. Payments to corporations are reported only if they are for medical, veterinary, health care, legal or fishing activities.

**If the following four conditions are met, you must generally report a payment as non-employee compensation:**

- \*You made the payment to someone who is not your employee (in other words, you did not issue them a W-2).
- \*You made the payment for services or for rent in the course of your trade or business and rental properties. This also includes payments made by nonprofit organizations.
- \*You made the payment to an individual, partnership, LLC, estate and in some cases, a corporation; and
- \*You made total payments to the payee of at least \$600 during the calendar year by cash and/or check.

**Credit card payments are not included in this requirement/amount.**

**EXAMPLE:** If a meat shop business paid a self-employed plumber, Jones Plumbing, \$750 for labor and materials to repair and replace floor drains, it would have to issue a Form-NEC to Jones Plumbing. If Jones Plumbing is listed as Jones Plumbing LLC, a Form 1099-NEC is still required. However, if the plumber is Jones Plumbing, Inc., no Form 1099-NEC is required (The Form W-9 should be kept in your file to prove that no Form 1099 was required). If you are not sure, then it is always better for you to issue the Form 1099-NEC or Form 1099-MISC.

### **What should be included on a Form 1099-NEC or Form 1099-MISC?**

The following information is required by the IRS for the processing of Form 1099-NEC or Form 1099-MISC:

- The payee's full name
- The social security number or Employer Identification Number
- The legal address of the individual or business
- The dollar amount, including labor and materials, paid to the payee. **Do not include charges on your credit card.**

All this information is obtained from a completed Form W-9. We have enclosed a blank W-9 for you that can be photocopied and used. Original Form W-9s are not required; photocopies will be accepted. Our office recommends that you ALWAYS obtain a completed Form W-9 from any new contractor or business BEFORE you issue them a check.

### **Why should I mess with filing these forms, after all, I am just a very small business? This is a huge hassle!**

With the passing of what is termed the PATH Act by Congress, there have been significant changes made to the issue of Form 1099s. These are the law changes:

1. All Form 1099s must be completed and mailed to both the payee and the Internal Revenue Service no later than January 31, 2024.
2. Failure to file 1099's by January 31, 2024, may incur a substantial penalty from the IRS for each 1099 that is not filed.
3. Per the IRS, any expenses on your tax return that required a Form 1099 to be issued, such as rents and subcontractors, will be disallowed if you fail to file the proper Form 1099s.
4. There is a check box on all business schedules that ask if you are required to file any Form 1099s and if you are, did you do so? If our office prepares your taxes, we will answer this question honestly. Failure on anyone's part to not answer this question honestly is considered fraud under the Internal Revenue Code.

### **Can Main Street Tax & Accounting Services, Inc. prepare and file these forms for me?**

We can prepare all Form 1099s for you. There is an additional charge separate from your income tax preparation for this service.

In order to complete these forms:

Please provide us with a complete list of anyone needing a Form 1099. Feel free to use the attached worksheet or send us copies of your W-9 forms on or before January 8, 2024.

We will complete Form 1099 projects in the order they are received at our office.

If the package of data you send to us is not complete, we reserve the right to not begin work until the full package is received.

**For information received after 5:00 PM on January 8, 2024, we will not guarantee we will be able to meet the January 31 deadline. Preparation fees will increase if the information is received after January 8.**

You may think that this letter is being sent to you to give our office more work. While new business may be welcome, let me assure you this is not the case. The IRS is continually improving their computer systems and attempting to close what Congress considers to be 'The Tax Gap.' They are serious about using the matching of Form 1099s to business returns and schedules to look for unreported income. They are also serious about imposing penalties any place they can.

If you have any questions or concerns, please call our office.

Just as a reminder our office will be closed December 22, 2023, to January 1, 2024.

Sincerely,

*Denise, Sarah, and Barb*

Attachments:

1099 Worksheet

Form W-9